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SUBJECT: AGRIMUM INVESTMENT DISPUTE COULD UNDERMINE EGYPT'S IMPROVED
IMAGE

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Summary and Introduction

¶1. (U) A campaign against construction of a urea fertilizer plant in the Port of Damietta industrial zone threatens to derail much of the GOE's success in improving Egypt's image as a safe, secure destination for foreign investment. EAgrium, a consortium of Canada's Agrium (60%), various GOE ministries and public companies (33%), and a Saudi firm (7%) have so far invested approximately \$400 million in the project, which was stopped in April after banks cut off a \$1 billion line of credit to the consortium when the GOE agreed to calls for a halt to the project pending further assessment of the environmental impact of the plant. This is one of the higher profile investment disputes Egypt has seen in recent times and it has been in the local press almost daily for weeks.

That's Urea, Not Uranium

¶2. (SBU) According to Greg McGlone, Managing Director of EAgrium, public hearings on the project were held in Damietta in 2006, and the Ministry of Environment gave the green light in early 2007 after reviewing EAgrium's environmental impact assessment. Public opposition to the project began only after EAgrium published an ad in a local newspaper in January 2008, in response to various local press reports that the plant would produce uranium and that it would have a detrimental effect on the nearby tourist resort of Ras El Bar. The ad explained the urea project, stating that the plant and its activities would comply with all relevant environmental laws. Despite this reassurance, public demonstrations began in front of the plant's construction site and in the town of Damietta, continuing until April when the People's Assembly (PA) intervened, calling for a new environmental impact assessment by a GOE-appointed committee.

Not In My Backyard

¶3. (SBU) In early June the committee produced its report, which stated that EAgrium had complied with all relevant environmental laws and that the plant would have no detrimental effect on Ras El Bar. The report recommended, however, that because the concerns of Damietta residents had reportedly not been adequately taken into consideration, the project should be moved to another site either in the Port of Damietta industrial zone, or another industrial zone elsewhere in Egypt. On June 24 the PA recommended the project move to either the Suez City industrial zone or the Port of Ain Sokhna

industrial zone, both on the Red Sea. The international banks funding the project have given EAgrium until June 30 to decide how it will proceed. Although Greg McGlone declined to comment on EAgrium's plans, press reports indicate EAgrium will ask the GOE for compensation if the plant moves to another location. The Canadian DCM in Cairo told us he thought the company would stop the project completely and pull all investment out of Egypt.

14. (SBU) Several contacts, including Ahmed Abul Zeid, former Assistant Minister of Investment and current president of the private investment company Tamweel, believe the Governor of Damietta, Mohamed El Baradei (not the same person as the Director General of the IAEA), is the driving force behind "public" opposition to the plant. The site of the EAgrium project is on the eastern side of a canal that cuts through the Port of Damietta industrial zone, creating an island bordered on the west by the canal, on the north by the Mediterranean, and on the south and east by the Damietta branch of the Nile. The Ras El Bar resort area sits on the eastern end of this island, and the industrial zone on the western end, with approximately 5 kilometers of undeveloped land in between the two areas. Abul Zeid believes El Baradei wants to use the entire island, including the part now in the industrial zone, for tourism development.

15. (SBU) McGlone shared Aboul Zeid's view that El Baradei is behind the public outcry. According to McGlone, the Governor is backed by "big money" interests and is riling public opinion against the plant as a pretext for forcing the project off of land he wants to use for other purposes. McGlone was vague about the "big money" interests behind El Baradei, but when pressed, he mentioned Gamal Mubarak's visit to Damietta prior to the local council elections last April. During the visit, Gamal heard Damietta residents' complaints about the project, and upon his return to Cairo, President Mubarak

reportedly summoned several ministers to a meeting to discuss the issue. It was shortly after this meeting that the PA called for a halt to construction. Prominent lawyer and advisor to EAgrium Mona Zaki told us that Gamal Mubarak is eager to be seen as giving residents of Damietta a voice in what happens in their community, even at the expense of sending a negative message to international investors.

Egypt Out of Gas

15. (SBU) Some contacts believe the real issue is not land use, but the 25-year contract the GOE signed with EAgrium to provide natural gas to the plant at concessionary prices. EAgrium will pay \$7/MMBTU for natural gas, higher than the \$1.25/MMBTU paid by the GOE-owned "MOBCO" urea plant (also located in the Port of Damietta industrial zone), and triple what Egypt gets for its gas exports to Spain and France, but lower than current international prices. Former AmCham President and EAgrium lawyer Taher Helmy claims the GOE has neither the natural gas resources, nor the political will to fulfill its end of the contract to supply energy to the plant. With international energy prices at an all time and high and still rising, the GOE would rather export natural gas now and let the EAgrium investment fail than be locked into a 25-year agreement for gas at a below-market price.

Closely Watched Disputes

16. (SBU) Banking sector contacts have told us that international investors are closely watching this dispute, as the EAgrium plant is the first major FDI project to receive international financial backing without GOE guarantees or letters of comfort. Essam Ragab, the Head of the General Authority on Investment (GAFI), told us that the PA's recommendation was sound, as it respected the local community's opinion and reflected World Bank best practice, noting that the local tourism industry could not afford to have a fertilizer plant in its midst. He did admit, however, that GAFI and the Ministry of Investment are concerned about the issue and possible ramifications it could have on Egypt's broader investment climate. He recently made a trip to Canada, possibly trying to combat the negative international investor sentiment that this event

is generating.

COMMENT

17. (SBU) The real reasons behind the GOE's decision to recommend EAgrium move its project, like so much in Egypt, may never be known. However, the PA recommendation to move the EAgrium project, even though it complied with all relevant laws, shows that FDI is still at risk of injury from arbitrary decisions of the government made for political reasons. Absent an offer of compensation from the GOE for additional costs incurred by EAgrium should it decide to move the plant, investors are, at a minimum, likely to change their risk calculation before investing in Egypt without guarantees from the GOE. Moreover, without concessionary energy prices, Egypt's attractiveness as an investment destination would most likely be outweighed by the risks of investing in a country with an investment regime still more opaque than transparent.
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